

April 30, 1997

**TO THE BOARD OF DIRECTORS OF THE LEGAL SERVICES CORPORATION
AND
THE UNITED STATES CONGRESS**

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from October 1, 1996 through March 31, 1997. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of Congress within 30 days, together with its report commenting on the contents of the SAR.

Edouard Quatrevaux
Inspector General

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INSPECTOR GENERAL'S MESSAGE

The previous SAR reported that the LSC Board of Directors, the “entity head” under the Inspector General Act, had questioned a number of specific IG statutory authorities at its September meeting. Most of these issues were rendered dormant by the OIG publication of the LSC 1996 *Audit Guide for Recipients and Auditors* and by the IG’s decision to terminate the OIG technology project due to lack of Board support. The Board Chairman has stated that these issues were “resolved,” but some fundamental differences of opinion remain.

The IG’s independent personnel authority was the one issue raised in the last SAR which was not rendered quiescent by the above. The Board implemented its interpretation of the law, which the OIG believes is incorrect, in a new section of LSC’s internal Personnel Manual which makes the IG’s personnel authority subject to the changeable policies of the Board. The Board was assured that the OIG will attempt to comply with the new Personnel Manual, as it did with the old. The IG made clear that if a future Board mandate threatened the independence of the OIG or interfered with its ability to perform the tasks assigned to it by law, the IG would first discuss this view with the Board, and then, if necessary, would follow the procedure established by the IG Act, §5(d), for reporting “serious or flagrant problems” or “abuses.”

An additional issue with regard to IG independence arose during this reporting period. Over the objection of the IG, the Board adopted a policy governing the IG’s communications with Congress. Among other things, the policy provides that the IG’s written communications that are not responses to direct inquiries to Members of Congress or their staffs must be submitted through the Board if time permits. Adherence to this policy in the issuance of audit reports would violate the provisions of government auditing standards relating to report issuance and distribution. The staffs of the Senate Governmental Affairs Committee and the House Government Reform and Oversight Committee were informed of this issue and of the OIG’s intention to work toward a compromise arrangement which will satisfy the Board in a manner that is not inconsistent with the IG Act.

INTRODUCTION

Corporate Structure

The Board of Directors of the Corporation is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General is appointed by and reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to approximately 270 entities that in turn provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, and Micronesia.

Office of Inspector General

The Office of Inspector General (OIG) was established as an independent office pursuant to the 1988 amendments to the IG Act. Its statutory missions are to prevent and detect fraud and abuse, and to promote efficiency and effectiveness in the activities administered or funded by LSC. The OIG accomplishes its missions by conducting audits, investigations, inspections and program assessments, and by making recommendations for change to legislation and regulations.

Certification of Independence

Inspector General operations in this period were free of personal or organizational impairment.

AUDITS

IMPLEMENTATION OF COMPLIANCE MONITORING

LSC's fiscal year 1996 appropriations act imposed new restrictions and prohibitions on the types of representation that may be provided by LSC grantees. It also required that routine on-site monitoring of grantee compliance with laws and regulations be accomplished through annual audits conducted by independent public accountants (IPAs) in accordance with guidance established by the Office of Inspector General. Authority was also given to the OIG to conduct additional on-site monitoring of LSC grantees in connection with assessing compliance.

The audit requirements of the fiscal year 1996 appropriation became effective with audits of fiscal years beginning January 1, 1996, and were retained in the fiscal year 1997 appropriation. The first audit reports of audits conducted under the requirements of the appropriations act are due to the OIG by April 30, 1997.

Audit Guidance Issued

A new Audit Guide was issued in this period, and contains an expanded Compliance Supplement that directs the attention of the auditors to the restrictions and prohibitions imposed on legal services grantees by the appropriations statute. The Audit Guide requires the IPAs to perform their planning and testing with emphasis on these restrictions and prohibitions, and requires specific reporting on grantee compliance with these restrictions and prohibitions.

Compliance Audits

In addition to the annual audits described above, the OIG began 16 special audits of two different types, covering 12 grantees. The first audit covered eight grantees and was designed to determine whether selected grantees had complied with key restrictions and prohibitions contained in the appropriations act. A second audit sought to determine whether eight grantees, including four in the first group, had used LSC funds to continue restricted or prohibited activities through other organizations or other means.

In this reporting period, 14 draft audit reports of the special audits were issued to 11 grantees for comment. The two remaining grantee audits and a consolidated report covering both types of audit for all 12 grantees will be issued in the next reporting period.

Audit Information Management System (AIMS)

AIMS became operational in this period. Its development was undertaken to support the new role of annual audits in assessing grantee compliance. The system receives summary reports from the grantees' independent auditors via the Internet to the OIG home page, and creates a computer database from which LSC management can obtain financial data and other administrative information. This transfer of information from the independent auditors' reports is automatic, and does not require internal communication or data entry at LSC.

AIMS, based on the auditors' summary reports, prioritizes the IPA audit reports for OIG auditors. Their review determines whether the reports meet audit standards, evaluates report contents, and refers findings to LSC management for follow-up. The referral is automatic based on codes entered by OIG auditors. AIMS will also track the status of these referred findings until they are resolved and corrective actions are complete.

Without AIMS, both the OIG and LSC management would have had to devote substantial time, personnel and paper to track the contents of several hundred audit reports through the referral and follow-up process to resolution and corrective action.

AUDIT AND INSPECTION ACTIVITIES

Status of Findings and Recommendations

There were no open recommendations at the end of the period.

Corporate Financial Statement Audit

The annual audit of the Corporation's financial statements was conducted in compliance with government auditing standards by an independent public accounting firm under contract to the OIG. The audit determined that the financial statements presented an accurate representation of the financial condition of the Corporation. In addition, separate reports on Compliance with Laws and Regulations and Internal Controls found no material weaknesses.

American Express Card Usage

In response to a request from the Chairman of the House Committee on Government Reform and Oversight, an inspection of American Express credit card usage was conducted. The inspection disclosed that 23 percent of the purchases made with the card were not related to official travel, and that the Corporation's related policies and procedures had not been updated. We recommended that the Corporation direct cardholders to adhere to the policy limiting use to official travel, and to update related guidance. Corporate management implemented the recommendations during the inspection.

Review of Prior Grantee Reports

We reviewed 70 grantee audit reports submitted by independent public accountants for fiscal periods prior to the effective date of the new restrictions and prohibitions. Those audits were conducted under the previous Audit Guide, which did not emphasize compliance with legal services restrictions and prohibitions. There were no instances of noncompliance with restricted and prohibited practices reported by the independent auditors.

Peer Review

Government Auditing Standards require that audit organizations be reviewed by an external entity every three years. The Executive Council on Integrity and Efficiency assigns member OIGs to conduct peer reviews as required. The OIG began a peer review of the Equal Employment Opportunity Commission Office of Inspector General in this period. A draft report was issued for comment, and the final report will be issued in the next reporting period.

**STATISTICAL SUMMARY OF AUDIT ACTIVITY
FOR THE PERIOD ENDING MARCH 31, 1997**

AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS

Open at beginning of reporting period	29
Opened during reporting period	1
Closed during reporting period	<10>
Open at the end of reporting period	20

RECOMMENDATIONS

Pending beginning of reporting period	0
Reported during this period	0
Closed during reporting period	0
Pending at end of reporting period	0

QUALITY ASSURANCE REVIEWS (QARs)

QARs Performed	0
Audits Acceptable (met standards)	0
Audits Referred for Disciplinary Action (substandard)	0
Reports Pending	0
Reports Closed	<u>0</u>
Reports remaining at end of period	0

INVESTIGATIVE ACTIVITIES

During this period, 34 cases were opened and 17 were closed. The majority of the cases resulted from information on losses due to thefts and burglaries provided by grantees in accordance with grant assurances. The remaining cases were opened as a result of information obtained from other sources, including internal sources, referrals from LSC offices, and calls or letters to the OIG Hotline. The Hotline was contacted 53 times and resulted in 6 cases.

There were no cases referred for prosecution this period. A previously referred case remains under consideration. Another previously referred case resulted in the issuance of a bench warrant for the subject's failure to appear in court and is pending prosecution.

An OIG investigation into the alleged theft of approximately \$25,000 by a former Executive Director and attorney of a grantee in California, which had been declined previously for prosecution, remains under review by the State Bar Association of Colorado for possible ethical violations.

**STATISTICAL SUMMARY OF INVESTIGATIVE ACTIVITY FOR THE
PERIOD ENDING MARCH 31, 1997**

INVESTIGATIVE CASELOAD

Open at beginning of reporting period	27
Opened during reporting period	34
Closed during reporting period	<17>
Open at end of reporting period	44

CATEGORIES OF INVESTIGATIONS OPENED

Internal (Relating to LSC)	0
External (Relating to LSC Grantee)	34

RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION

Pending beginning of reporting period	1
Reported during this period	0
Closed during reporting period	0
Pending at end of reporting period	1

PROSECUTIVE ACTIVITIES

Referred for prosecution this reporting period	0
Prosecution Declined	0
Pending Action	2
Convictions	0

LEGISLATIVE AND REGULATORY REVIEW

During this period, LSC continued its efforts to develop and revise regulations to implement changes mandated by the fiscal year 1996 and 1997 appropriations acts. The OIG provided written comments to management on drafts of regulations, met with management and provided oral comments to a committee of the Board of Directors. OIG comments consisted mainly of suggestions to improve the extent to which the regulations implement the apparent intent of Congress, and suggestions to facilitate monitoring of compliance of LSC recipients through annual financial and compliance audits.

The OIG had significant disagreement with one regulation approved by the Board. The regulation provides guidance to legal services grantees concerning claiming or collecting and retaining attorneys' fees, 45 CFR Part 1642. The regulation does not prohibit collecting fees directly from indigent clients through retainers or other agreements. Rather, it limits the prohibition to fees awarded in fee-shifting cases (from the other party) and fees received from a client's retroactive statutory benefits (*e.g.*, fees in Social Security cases). Because not prohibited, the collection of fees directly from indigent clients is permitted, a result which, in the view of the OIG, is contrary to the intent of Congress. That intent, implicit in the LSC Act and explicit in LSC's recent appropriations acts and their legislative history, is to bar grantees from collecting attorneys' fees, from clients or otherwise. As the OIG explained in its comments to the Board during the previous reporting period, a statutory change should be sought from Congress if it is believed that an exception which permits collection of fees from clients is desirable.

PROGRAM ASSESSMENT

Review of Technology

The previous semiannual report stated that preliminary work had begun on a concept evaluation related to introduction of current information technology into the legal services delivery system. The OIG terminated the project midway through the reporting period due to lack of support from the Board of Directors.

Strategic Planning

The Office of Inspector General opted to comply voluntarily with the Government Performance and Results Act (GPRA), and began work on a strategic plan as required by the GPRA. The OIG will consult with LSC's management and Board, and the appropriate Congressional committees as it develops its plan. The plan will cover fiscal years 1998-2002, and be completed by the end of the next reporting period.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 1997**

		NUMBER REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A.	For which no management decision has been made by the commencement of the reporting period.	0	\$0	\$0
B.	Reports issued during the reporting period	0	\$0	\$0
	Subtotals (A + B)	0	\$0	\$0
LESS:				
C.	For which a management decision was made during the reporting period:	0	\$0	\$0
	(I) dollar value of recommendations that were agreed to by management	0	\$0	\$0
	(ii) dollar value of recommendations that were not agreed to by management	0	\$0	\$0
D.	For which no management decision had been made by the end of the reporting period	0	\$0	\$0
	Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

TABLE II

**Audit Reports Issued with Funds to be Put to Better Use
for the Period Ending March 31, 1997**

	NUMBER REPORTS	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
LESS:		
C. For which a management decision was made during the reporting period:	0	\$0
(i) dollar value of recommendations that were agreed to by management	0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0

TABLE III

Index to Reporting Requirements
of the Inspector General

IG Act*** Reference	REPORTING REQUIREMENT	PAGE
Section 4(a)(2)	Review of legislation and regulations	9
Section 5(a)(1)	Significant problems, abuses, and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use	3
Section 5(a)(7)	Summary of each particularly significant report	3
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	11
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	12
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	3
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

***Refers to sections in the Inspector General Act of 1978, as amended.